

## Annual General Meeting

01 February 2012

### Iain Napier – Chairman

Good afternoon, ladies and gentlemen.

I'm delighted to welcome you to Imperial Tobacco's 2012 Annual General Meeting.

A quorum of shareholders is present, so I declare the meeting open.

I'd like to start by introducing your Board and updating you on some changes we have announced today.

I'm Iain Napier, the Chairman of your Company.

On my very far right is Berge Setrakian a Non-Executive Director, then Susan Murray also a Non-Executive Director, Michael Herlihy Non-Executive Director and Chairman of the Remuneration Committee and then Pierre Jungels, who is retiring today as a Non-Executive Director and Senior Independent Director.

Moving in, next to Pierre is Alison Cooper, our Chief Executive.

On my immediate left is Matthew Phillips, Company Secretary, then Bob Dyrbus, Finance Director.

Next to Bob is Mark Williamson, Non-Executive Director. Mark has been Audit Committee Chairman and will today take over from Pierre as Senior Independent Director.

Next to Mark is Malcolm Wyman, Non-Executive Director who becomes our Audit Committee Chairman today, and then on my very far left is Ken Burnett, a Non-Executive Director.

In addition, we announced this morning the appointment of David Haines as a Non-Executive Director as of tomorrow.

David is currently Chief Executive Officer of Grohe AG.

Before moving on to the business of the Meeting, you might like to know that today's proceedings are being recorded.

If you wish to ask a question on any of the resolutions, please go to the Question Registration point at the rear of the room.

I'll start the meeting with an overview of our 2011 financial year. Alison will then give a more detailed review of our progress last year and a brief update on the first quarter of our current financial year. We'll then return to the more formal business of the meeting.

### FY11 Highlights

Against a tough economic backdrop, we delivered a good set of results in 2011. With our commitment to sales excellence, combined with cost and cash management, we continued to maximise returns for our shareholders.

We grew sales, driving growth through our total tobacco portfolio across our market footprint.

Our total stick equivalent volumes - which combines our cigarette and fine cut tobacco volumes - were down just 1.5 per cent. This was a pleasing result given exceptional circumstances in Spain where volumes declined last year by 13 per cent and the impact of trade buying patterns in the UK.

## Annual General Meeting

01 February 2012

Volumes of our key strategic brands, fine cut tobacco, luxury Cuban cigars and snus were all up, with gains in EU and non-EU markets and an excellent performance in emerging markets.

Our performance is better understood using constant currency, that is removing the effects of exchange rate movements. On that basis tobacco net revenues grew 2 per cent and adjusted earnings per share increased by 5 per cent.

Strong financial discipline is embedded across the business and we continued to focus on efficiencies with productivity gains of 3 per cent. Tobacco operating margins were again over 42 per cent due to price increases and ongoing cost optimisation.

Cash conversion was strong at 88 per cent and we generated £1.6 billion of free cash flow, in part we used this cash to buy back shares and bought back £181 million of our own shares and further reduced our debt by half a billion pounds.

Your Board proposed a final dividend of 67 pence bringing the total dividend for 2011 to 95.1 pence per share - a strong increase of 13 per cent, with the payout ratio up on 2010 to slightly over 50 per cent.

### Growth Through Total Tobacco

Our total tobacco approach was central to our success last year.

Our key strategic brands - Davidoff, Gauloises Blondes, West and JPS - had another strong year and overall stick equivalent volumes rose by 4 per cent.

Fine cut tobacco volumes were up 4 per cent, complemented by 5 per cent growth in papers and 9 per cent growth in tubes.

Our premium cigar business, Habanos grew volumes by 4 per cent in non-EU markets, US premium cigars were up 9 per cent last year, and in the EU, mass market cigar volumes rose 8 per cent.

We also had another strong year in our Scandinavian snus business, growing volumes by 30 per cent.

I'd now like to hand over to Alison to update you in more detail on 2011.

### Alison Cooper – Chief Executive

Thanks Iain and good afternoon.

There were two key areas of focus for Imperial in 2011, as always it was about delivering the results, and I'll come on to more detail shortly, but 2011 was also about gearing up behind our sales growth agenda.

There was a huge amount of activity across the business looking at how we maximise the potential of our key assets, our market footprint, our unique total tobacco portfolio, our very strong brand equity and not least of all, our excellent people.

To unlock this potential we are shifting our mindset with a focus on seeing things differently and doing things differently, different to the industry and different to how we have approached things in the past.

Seeing things differently includes developing a deeper understanding of what drives consumers, and how we can translate these consumer insights into opportunities for our Total Tobacco portfolio.

## Annual General Meeting

01 February 2012

Doing things differently is about delivering execution excellence through fewer, bigger and better initiatives that will accelerate our sales growth.

### Sales Growth Drivers

To ensure we maximise the potential of our assets, we identified 4 sales growth drivers at which we want to excel.

These are

- portfolio management, aligning our portfolio to consumer insights
- innovation, which is about delivering innovative products based on consumer insight
- pricing, how we model pricing strategies to maximise revenue growth taking into account excise structures, and
- customer engagement, partnering with our trade customers and enhancing the advocacy and the availability of our products.

### Key Enablers

Our four sales growth drivers are supported by three key enablers.

The first enabler is consumer insight, an essential pre-requisite for growth.

Operation and supply alignment is a core part of our focus on execution - using our agility to bring ideas to market efficiently and effectively.

And finally, shaping our environment, becoming even more proactive in defending our business and our consumers.

### Maximising Shareholder Returns

You can see how these elements come together to maximise shareholder value for your company.

Our strategy is to sustainably grow sales by focusing on our sales growth drivers, supported by our key enablers, sustainable sales growth combined with our ongoing efficient management of operations generate high operating margins. These high margin profits combined with management of our working capital generate our substantial cash flows, which we then use to maximise returns for shareholders.

### Our People

Bringing our strategy to life for the benefit of our shareholders depends on the commitment of our people. Over the last year or so we've focused on how best we can harness our employees collective potential behind our sales growth agenda.

We launched our first engagement survey, and the positive results placed us ahead of the food, beverage and tobacco industry benchmark.

This is a very encouraging position to be in and one that we're focused on improving as we continue to drive engagement across the business.

## Annual General Meeting

01 February 2012

We've enhanced our people capability framework to be more closely aligned with our strategy and it includes the behaviours, skills and knowledge that are required to achieve our sales growth ambitions.

### Our Values

We've also launched new values in the business, our values articulate the core beliefs that underpin our success - they are about working together, continually improving, taking ownership and making the most of every opportunity. They guide how we act and set us apart from our competitors.

### Our People

There's been a great response to these people initiatives. The Imperial team have made fantastic progress with our strategic agenda this year and are very focused on building on our success going forward.

### Responsibility

Responsibility is integral to our values and operating responsibly is simply part of how we do business.

To ensure all our stakeholders have a comprehensive review of our achievements we again incorporated our corporate responsibility performance into our 2011 Annual report with further information on our website.

In 2011, we were awarded another Gold Award in the Business in the Community CR Index and achieved 71 per cent in the Dow Jones Sustainability Index.

We made great progress with our key corporate responsibility objectives, highlights included our increased anti-illicit trade activities, further improvements in standards for ethical sourcing with tobacco leaf suppliers, exceeding our 10-year targets for waste to landfill and energy, and lowering accident rates.

### Growth Through Total Tobacco

Now, turning to our 2011 operational performance.

As Iain said, our total tobacco approach was key to growth last year and our key strategic brands, Davidoff, Gauloises Blondes, West and JPS, had another excellent year.

### Key Strategic Brands

We increased Davidoff volumes by six per cent due to another impressive performance in Non-EU markets.

Gauloises Blondes grew by 2 per cent which reflected strong underlying momentum impacted by compliance with international sanctions in the Middle East.

West volumes declined two per cent in 2011 primarily due to market weakness last year in Poland and Turkey, but we made good progress in consumer growth segments in the emerging markets of Eastern Europe and Asia.

## Annual General Meeting

01 February 2012

JPS had another excellent year with volumes reaching 24 billion compared to just 9 billion in 2005, a tremendous achievement reflecting the way we developed the brand in line with consumer trends.

### Fine Cut Tobacco

Fine cut tobacco continued to grow, particularly in the EU, where it is a great value proposition for consumers. Fine cut tobacco accounts for more than 110 billion stick equivalents in the EU, more than one in every six stick equivalents smoked in the EU is a fine cut tobacco product, and we captured growth in this dynamic category.

We grew overall fine cut tobacco volumes by 4 per cent largely due to the outstanding growth of Route 66, which was up 49 per cent last year.

This was added to by excellent performances by West up 16 per cent and JPS up 14 per cent.

### Habanos

Habanos brands are without question the world's leading luxury cigars and luxury products increased in demand with non-EU volumes up 4 per cent reflecting excellent momentum in high growth markets such as Brazil, Russia and China.

### EU Highlights

If I look at our total tobacco performance across our market footprint it's clear that in the EU there's a strong value dynamic, which we continued to capitalise on.

In the UK we maintained our market leadership, although volumes were down due to market softness following the VAT increase in January last year and the excise changes in the budget last March.

UK sales and operating profits declined, impacted by a change in trade buying patterns.

Excluding this factor both sales and profits were up with good progress in value cigarettes and fine cut tobacco.

We were pleased that in December, the Competition Appeal Tribunal quashed the OFT's decision to fine Imperial Tobacco £112 million for allegedly restricting competition and the OFT have confirmed that they will not be appealing.

In Spain, the market was down significantly in 2011 and market profitability was impacted by competitor pricing activity in the second half of our 2011 financial year.

We remained focused on reinforcing our market leadership with a number of successful value line extensions in both cigarettes and fine cut tobacco.

Our performance in Germany was excellent; we made great progress in value brands and products, which led to strong profit growth of 7 per cent.

In our Rest of EU region we increased our cigarette shares in a number of markets last year, grew volumes of fine cut tobacco and these portfolio successes improved our Rest of EU profits by 3 per cent.

## Annual General Meeting

01 February 2012

### Non-EU Performance

Outside the EU, we delivered a resilient cigarette performance in the USA and held our share in what is a highly competitive market.

But the real story was our excellent performance in emerging markets, where we achieved very strong results in Eastern Europe, Asia-Pacific and Africa and the Middle East.

Davidoff, Gauloises Blondes, West, JPS and Habanos cigars all contributed to our success in 2011.

Overall profits in our Rest of the World region increased 14 per cent, with profits in Asia-Pacific up 27 per cent, Eastern Europe up 21 per cent, and Africa and the Middle East up 8 per cent.

### Logistics

Turning now to our Logistics business where our profits were up 4 per cent reflecting the great resilience of the business given the challenging economic and competitive environment.

In tobacco logistics we offset the impact of significant volume declines in Spain by delivering strong performances in France and Italy whilst driving cost efficiencies and benefitting from increased distribution fees. And in other logistics we restructured a number of businesses last year which resulted in stable sales, a pleasing result against a difficult backdrop.

### Strategy

In summary, we delivered a good performance in 2011 and demonstrated our ability to drive growth through Total Tobacco.

By focussing on our sales growth drivers and key enablers we see opportunities to further unlock our potential and deliver high quality sustainable earnings growth.

### Q1 Trading

Now let's turn to the first quarter of our current financial year.

Looking purely at our headline numbers would suggest a slow start to the year as our overall quarterly performance was impacted by a number of factors. There are positive underlying growth trends across the business which highlight the success of our total tobacco focus including particularly good performances from our key strategic brands.

### Outlook 2012

I can confirm that the overall operational performance and financial position of the Group for the financial year to 30 September 2012 is in line with the Board's expectations.



## **Annual General Meeting**

01 February 2012

More details on our first quarter are available in our interim management statement issued this morning, copies of which are available at the information point at the back of the room and on our website.

Thank you and I'll now hand back to Iain.

### **Iain Napier – Chairman**

#### **Annual General Meeting**

Thank you Alison.

Before turning to the formal business of the Meeting I would like to thank my colleagues on the Board, our senior management team and our employees worldwide for their contribution to another successful year in 2011.

I would also like to take this opportunity of thanking Pierre, who is stepping down from the Board today, for his contribution to the company over the past nine years.

Pierre, we all wish you well in the future.

My colleagues and I would like to thank you for attending and invite you to join us for tea and coffee. I hope you all have a safe journey home. We look forward to seeing you next year.

Thank you.